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Venezuela

Sugar

Annual

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Report Highlights:
Although output should increase slightly this year, imports will still be needed to supply growing demand for sugar. Post provides an updated report in Annual form.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Caracas [VE1]
[VE]

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Executive Summary

Sugar production is estimated to increase to about 800,000 metric tons, but imports will still be needed to cover increasing demand led by the soft drinks and confectionary industries. Milling capacity is still lacking, meaning that harvest losses are significant and mitigate production increases. Price controls limit future industry growth.

Production

Sugar production for 2008/09 is estimated to be about 800,000 metric tons (MT), a small increase from previous years. Yet, even with extensive land suitable for cane planting and a weather that favors production, demand cannot be met by the domestic industry. Historically, between 70 to 75 percent of the country's sugar demand is met by domestic production, while imports account for the rest.

Currently, there are 14 sugar mills operating in Venezuela, but total milling capacity is not sufficient to process additional cane production. Media reports confirm that sugar mills function at 80 percent of their total milling capacity. In addition, almost no significant investments have taken place to improve capacity.

During the previous year, growth in cane and refined sugar production responded mainly to the combined effort of cane growers and millers to achieve better yields and a higher sugar content of sugar cane. Additional area planted to sugar cane does not have a significant impact in overall refined sugar production because there is insufficient milling capacity to take advantage of increased raw material output; sugar cane continues to be left on the fields for lack of milling capacity, despite the efforts from some mills to make some adjustments for cane reception and milling.

The first sugar cane harvest takes place from November through April, and the second from June through November. The first harvest is responsible for about 70 percent of the cane cut in Venezuela, and the second harvest for the remainder. Two Venezuelan mills, Central La Pastora and Central Carora, located in Lara State in the northwest, have plantations on which cane can be harvested all year long.

Land Expropriation

Last year, a significant amount (some 10-12 percent) of land appropriate for sugar production was taken over by the government because it was said to be out of production. Although the final outcome of this expropriation is not known, it could have a downward effect on next year's output.

Consumption

Cane and refined sugar are included in the controlled price regime list which has been in place since January 2003. Increased purchases of sugar due to constant spot shortages continue to have a significant impact on total consumption. Sugar consumption in Venezuela is estimated for 2008/09 at 1.2 MMT, greater than the past year.

Two-thirds of refined sugar is consumed by households and the balance goes to the industrial food sectors, composed of soft drinks and snacks (cookies, crackers and confectionary). The Venezuelan soft drink industry uses 100 percent sugar without any fructose or other sweetener for its non-diet beverages.

Prices

Refined sugar continues to be under the retail price control policy established by the government in 2003.

Cane and refined sugar prices are set through the National Sugar Board (Junta Nacional del Azucar). Initiated by the Government of Venezuela in mid-2003, the National Sugar Board is responsible by law to review criteria for setting fair prices for cane and refined sugar. The National Sugar Board is composed of representatives from the sugar cane growers, sugar millers, retail, consumers and government sectors. Since 2005, the National Sugar Board has not met on a regular basis.

Marketing

Currently, both the government and the private sector sell refined sugar. Sugar millers continue to offer refined sugar under their brands through Venezuela's traditional retail sector (supermarkets, "mom and pop" stores, convenience stores, etc). On the other hand, the government directly purchases refined sugar from the millers through its food purchasing entity, CASA, (Corporacion de Abastecimiento y Servicios Agricolas) and then sells it through its food distribution stores (called MERCAL) at lower retail prices.

While the Venezuelan consumer prefers refined sugar, its shortage opened the market for different sugar products. Brown sugar and fruit lactose products are now options taken into consideration by consumers and their markets have expanded. These products are not under the controlled price regime.

Policy

As of early 2007, the government implanted the following policies to support the sugar sector:

Direct Payments to Producers

The subsidy scheme of direct payments is oriented exclusively to sugar cane growers. Growers, based on their acreage, are subject to a list of requirements in order to receive this subsidy. Sugar cane growers received about US$ 0.6 cents per kilogram.

Input and marketing cost reduction measures

The Official Gazette Nº38,626, dated 02/14/07, lists the minimum prices for sowing, planting, harvesting and transportation services.

Fuel Prices

The Bolivarian Republic of Venezuela (BRV) also maintains gasoline and diesel prices at extremely low levels (currently about 13 cents/gallon) through the government petroleum company, PDVSA.

Agricultural Financing

Sugar cane is included in the list of priority commodities that receive agricultural financing during fiscal year 2008.

New Mills and Technical Assistance

All government plans to increase sugar production include a technical assistance component, generally provided through the Government of Cuba. The guidelines for this cooperation were set back in October 2000. At that time, both governments signed an agreement to exchange Venezuelan petroleum for Cuban assistance in the areas of agriculture, tourism and recreation. This agreement also mentions the construction of three sugar mills with the assistance of Cuban technicians.

Ethanol Projects

The "Ethanol Project" initiative was cancelled in March 2007. Initially, the "Ethanol Project" was to be managed by the country's petroleum company, PDVSA, and it included 17 basic ethanol processing units. Although there have been recent press statements from some groups advocating a reanimation of this initiative, no progress has been observed. According to press reports, PDVSA (the petroleum industry), is building a plant in Cojedes with capacity to process about 10,000 tons of cane to produce 70,000 liters per day of ethanol. They also have sugar cane plantations in Portuguesa and Barinas that will provide raw materials. The facility should be ready in the first quarter of 2010.

Trade

Imports are expected to be significant again, as demand moves ahead of supply.

Tariff Rate Quota's and Import Licenses

Under its World Trade Organization commitments, Venezuela is entitled to administer a tariff rate quota (TRQ) of up to 132,013 tons of sugar with a tariff rate of 40 percent. The TRQ is administered through an import license scheme that is managed by the Ministry of Food (in Spanish: Ministerio de Alimentación or MINAL). The TRQ for sugar is allocated through an import license regime specified in an Official Notice published in a local newspaper.

Import licenses are awarded to mills based on the percentage of sugar cane received and milled. Import licenses are valid for six months to one year, and are good for one shipment. When applying for a license, established importers must submit to the Ministry of Food (MINAL) a monthly list of imports actually realized, indicating volume and value, together with the invoice of the most recent import, also indicating the volume and value of the merchandise in question. The importer must indicate the amount of the allocated quota that remains unused, which in some cases is reincorporated into the quota to be reassigned. Information on import license requirements can be reviewed (only in Spanish) through the following address: *http://www.minal.gob.ve/view/docs/licemport.pdf*.

Tariff Changes

Raw and refined sugar coming from the Andean Community enters Venezuela duty free. Bilateral agreements signed between Venezuela and Guatemala, Nicaragua and El Salvador also gives sugar from these countries duty free entry.

The present base tariff on sugar is 15 percent ad valorem calculated on the CIF price basis. Sugar is included in the Andean Community price-band variable-levy system. This tariff system was implemented by Venezuela for sugar and several other agricultural products in September 1995. The base tariff is raised if the CIF price is below a floor price, and lowered if prices surpass a ceiling price. White and refined sugars have different prices within the price band system. Floor and ceiling prices are based on average prices for white sugar, contract No. 5 FOB London during the last five years.

Tariff Exoneration

Import tax exoneration for sugar imports (HS 1701.11.90) was valid until February 12, 2008 (according to the Official Gazette Nº 38,625, dated 02/13/07). This measure had been renewed every six-months until this year, when the government changed it for a one year period.

Non-Production Certificates

Since January 2003, importers interested in importing basic commodities as well as some horticultural products and agricultural inputs, must request a “certificate of non-production” or a “certificate of insufficient production” through the Ministry of Industry and Commerce (MILCO). These certificates state that a certain product is not domestically produced or there is not enough domestic production of it, in order to protect the domestic industry. These certificates allow importers to request foreign exchange for its imports, request import licenses and import permits from other government offices. Most recently, the government incorporated additional agricultural inputs to the non-production certificate list of 2003 (according to the Official Gazette Nº38,577, dated 12/05/06).